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DEPARTMENT OF AUDITOR-CONTROLLER**

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May 10, 2007

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley *JTM*
Auditor-Controller

SUBJECT: **COMMUNITIES IN SCHOOL OF SOUTH BAY, INC. CONTRACT -
WORKFORCE INVESTMENT ACT YOUTH PROGRAM**

We have conducted a program, fiscal and administrative contract review of Communities In School of South Bay, Inc. (CIS or Agency), a Workforce Investment Act (WIA) service provider.

Background

The Department of Community and Senior Services (DCSS) contracts with CIS, a private non-profit organization, to provide and operate the WIA Youth Program. The WIA Youth Program is a comprehensive training and employment program for in-school and out-of-school youth ages 14 to 21 years old. CIS is located in the Second District.

CIS is compensated on a cost reimbursement basis. CIS's contract for fiscal year (FY) 2005-06 was for \$245,126.

Purpose/Methodology

The purpose of the review was to determine whether CIS complied with its contract terms and appropriately accounted for and spent WIA funds in providing services to eligible youth participants. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines.

"To Enrich Lives Through Effective and Caring Service"

Results of Review

CIS did not maintain documentation to support their expenditures and billed DCSS for unallowable costs, resulting in an over payment of \$43,690. Specifically:

- CIS did not provide proper documentation to support expenditures totaling \$22,409.
- CIS provided incentives to 32 participants in FY 2005-06. However, the incentives were paid to reimburse the participants for purchasing Magic Mountain tickets. We also noted that CIS provided the participants with transportation to and from Sea World and Magic Mountain in FY 2004-05 and FY 2005-06. According to federal regulations, costs of entertainment and any costs directly associated with such events are unallowable. The amount billed to DCSS for unallowable expenditures totaled \$7,884.
- CIS did not maintain appropriate documentation to support two (20%) of the ten participants' eligibility to receive program services. The amount billed to DCSS for the two ineligible individuals totaled \$1,284.
- CIS inappropriately billed DCSS the participants' educational hours as wages for seven program participants. The amount billed to DCSS for unallowable expenditures for the seven participants in FY 2005-06 totaled \$2,855.
- CIS inappropriately billed DCSS for three non-WIA participants' wages totaling \$1,502.
- CIS inappropriately billed DCSS \$6,720 for unsupported on-the-job training (OJT) to WIA youth participants in FY 2004-05, which is also not an allowable program service for WIA youth participants under the WIA guidelines.
- CIS inappropriately billed DCSS educational hours as participants' wages for three (43%) of the seven eligible participants totaling \$1,036 in FY 2004-05.

In addition, CIS did not always provide the level of services required or comply with the County contract requirements. Specifically:

- CIS did not accurately or completely report the participants' program activities on the Job Training Automation system for all ten participants sampled.

- CIS's hours of operation were not maintained as required by the County contract.
- CIS allowed two employees to conduct personal business activities during the Agency's hours of operation. The County contract prohibits contractors' employees from participating in matters affecting an employee's own financial interests or the financial interest of another person or organization.
- CIS did not have policies and procedures in place for monitoring its subcontractors. CIS hired a contractor to monitor their subcontractors. However, the contractor that was hired to monitor the subcontractor is also one of CIS's other subcontractors, contracted to provide WIA program services.

Details of our review along with recommendations for corrective action are attached.

Review of Report

We discussed our report with CIS on January 22, 2007. In their attached response, CIS disagreed with a number of recommendations in the report. During the review process, we attempted to resolve the disagreements. In instances in which the Agency provided appropriate documentation to support their disagreement, we adjusted our report accordingly. In instances where we did not accept the documentation, we explained to the Agency why their response was not acceptable.

CIS indicated that the educational hours billed as wages to DCSS were allowable. However, per regulatory guidelines, wages for training hours are not allowable. Agencies are allowed to pay participants incentives for completing the appropriate training classes. CIS also indicated that copies of the lease agreement were provided for our review. However, the lease provided by CIS did not adequately support the amount charged to lease expenses.

In addition, CIS indicated that participants were given the option to use their monetary incentives to purchase Magic Mountain tickets. However, the participant interviewed indicated that they were told to purchase Magic Mountain tickets with the \$125 CIS paid them and were not given a choice. According to federal regulations, costs of entertainment and any costs directly associated with such events are unallowable.

We notified DCSS of the results of our review. We thank CIS for their cooperation and assistance during this review. Please call me if you have any questions, or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

- c: David E. Janssen, Chief Administrative Officer
Cynthia Banks, Director, Department of Community and Senior Services
Shirley Allen, Executive Director, Communities In School of South Bay, Inc.
Public Information Office
Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAM
COMMUNITIES IN SCHOOL OF SOUTH BAY, INC.
FISCAL YEAR 2005-06**

ELIGIBILITY

Objective

Determine whether Communities In School of South Bay, Inc. (CIS or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

Verification

We judgmentally sampled 10 (14%) program participants from a total of 73 participants that received services between July 2005 and April 2006 and reviewed their case files for documentation to confirm their eligibility for WIA program services.

Results

CIS did not maintain appropriate documentation to support three (30%) of the ten participants' eligibility to receive program services. Specifically, CIS did not obtain proof of income, barrier category for employment or the participants were not residents of the contract service area. Subsequent to our review, CIS provided appropriate documentation to support one of the three participants' eligibility. The amount billed to the Department of Community and Senior Services (DCSS) for incentives, supportive services and wages paid to the two ineligible individuals totaled \$1,284. There may be other direct and indirect costs associated with providing services to the three ineligible individuals that we were unable to determine, such as staff time, training courses and transportation.

Recommendations

CIS management:

- 1. Repay DCSS \$1,284.**
- 2. Review the eligibility of all program participants enrolled and repay DCSS for services provided to ineligible participants.**
- 3. Ensure that staff obtain appropriate documentation from the participants to determine the participants' eligibility for program services prior to enrollment as required.**

BILLED SERVICES/CLIENT VERIFICATION**Objective**

Determine whether the Agency provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the program participants received the billed services.

Verification

We reviewed the documentation contained in the case files for 10 (14%) program participants that received services during July 2005 through April 2006. We also interviewed six of the program participants/guardians.

Results

The six participants/guardians interviewed stated that the services the participants received met their expectations. As indicated above, two (20%) of the ten participants were ineligible for the WIA program. Of the eight eligible participants, CIS inappropriately billed DCSS \$2,855 for wages paid to seven participants to attend classes in Fiscal Year (FY) 2005-06. CIS also did not maintain appropriate documentation, such as timecards, signed incentive policies and receipts in the participants' case files to support the subsidized employment, incentives or supportive services provided to three participants, totaling \$415. CIS needs to repay DCSS \$3,270 for unsupported and unallowable expenditures.

CIS also did not accurately or completely report the participants' program activities on the Job Training Automation (JTA) system for all ten (100%) participants sampled. The JTA system is used by the State of California Employment Development Department and the Department of Labor to track WIA participant activities.

Recommendations**CIS management:**

4. **Repay DCSS \$3,270.**
5. **Discontinue paying wages to participants for attending educational classes.**
6. **Review the financial records and the remaining participants' case files to determine whether CIS inappropriately billed DCSS for educational hours as participants' wages during FY 2004-05 and FY 2005-06 and repay DCSS .**

7. Ensure that appropriate documentation is maintained in the participants' case files to support expenditures.
8. Ensure that staff accurately update the JTA system to reflect the participants' program activities.

CASH/REVENUE

Objective

Determine whether cash receipts and revenues are properly recorded in the Agency's records and deposited timely in their bank account. Determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed the Agency's March 2006 bank reconciliations.

Results

CIS does not always resolve reconciling items within a timely manner as required by the County contract. Specifically, there were four unresolved outstanding checks, totaling \$1,388 on the March 2006 bank reconciliation that were older than 210 days. The Agency's accounting policy also requires that outstanding checks over 90 days be rectified by either a stop payment or a letter of inquire to the payee.

Recommendation

9. CIS management ensure that reconciling items are resolved timely and unclaimed checks cancelled in a timely manner.

EXPENDITURES/PROCUREMENT

Objective

Determine whether program related expenditures are allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records and other documentation to support 26 non-payroll expenditures transactions, totaling \$4,625 (70%) of \$6,606 billed by the Agency for February 2006. We also reviewed the FY 2005-06 General Ledger, covering the period of July 1, 2005 through May 2, 2006, for any duplicate or unallowable costs.

Results

CIS needs to repay DCSS \$29,808 for unallowable and unsupported expenditures. Specifically:

- CIS did not obtain a lease agreement for the facility it currently leases. The County contract requires bona fide contracts or lease agreements to support operating expenses. CIS paid \$18,494 in facilities lease costs for WIA's allocation for July 2005 through April 2006.
- CIS did not obtain a signed agreement from two subcontractors. The County contract requires a signed contract, among other supporting documentation, to support the expenditures for consultant services. CIS paid the two subcontractors a total of \$2,500.
- CIS inappropriately billed DCSS \$4,012 for incentives provided to 32 participants. According to a participant we interviewed, each participant was given \$125 to purchase a Magic Mountain ticket. CIS also billed DCSS \$2,300 for the Magic Mountain trip transportation costs. According to federal regulations, costs of entertainment and any costs directly associated with such costs are unallowable.
- CIS inappropriately billed DCSS \$1,502 for three non-WIA participants' wages during the months of August and September 2005 and April 2006.
- CIS inappropriately billed DCSS \$1,000 for unsupported consultant charges. Specifically, CIS did not have an invoice to support the \$1,000 in consultant charges incurred in November 2005 and the September 2005.

Subsequent to our review, CIS provided a lease agreement for the leased facility. However, the agreement was not between CIS and the owner of the property and CIS did not provide us with supporting documentation for the amount charged to the WIA program.

Recommendations**CIS management:**

- 10. Repay DCSS \$29,808.**
- 11. Obtain bona fide contracts to support the Agency's consultant services costs.**
- 12. Ensure that entertainment costs and related costs are not billed to DCSS.**

13. Ensure that only actual program related expenditures are billed to DCSS.
14. Ensure that adequate documentation is maintained to support expenditures.

INTERNAL CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether the Agency maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various non-cash areas such as expenditures, payroll and personnel.

Results

CIS was not in compliance with various County contract requirements. Specifically:

- CIS allowed two employees to conduct personal business activities during the Agency's hours of operation. Specifically, the two employees distributed business flyers to participants and received personal calls and faxes at the CIS facility. The County contract prohibits contractors' employees from participating in matters affecting an employee's own financial interests or the financial interest of another person or organization. CIS's personnel policy also prohibits employees from distributing non-company literature in work areas at any time during working hours.
- CIS did not carry adequate crime coverage insurance. Specifically, the Agency's crime coverage insurance policy did not cover for "theft, disappearance and destruction" or "burglary and robbery" as required. In addition, the Agency's workers' compensation insurance policy had a 10 day advance written cancellation notice period. The County contract requires a 30 day advance written notice of termination of any program of insurance.
- CIS hours of operation are from 9:00 a.m. to 5:00 p.m., Monday through Thursday, and closed Fridays and Saturdays. However, the County contract requires Agencies to maintain hours of operation from 9:00 a.m. to 6:00 p.m., Monday through Friday and every other Saturday, from 9:00 a.m. to 1:00 p.m.

- CIS did not have policies and procedures in place for monitoring its subcontractors. Although CIS hired a contractor to monitor their subcontractors, CIS did not have any written reports from the contractor documenting their findings, recommendations or the subcontractor's corrective action plans. In addition, the same contractor that was hired to monitor the subcontractor is also one of CIS's other subcontractors, contracted to provide WIA program services.
- CIS's accounting policies and procedures manual was incomplete. Specifically, the Agency's accounting manual did not include policies and procedures regarding travel and bonding of employees.
- CIS did not perform a fair market analysis for the facility it currently leases.

Subsequent to our review, CIS provided proof of crime coverage, policies on travel and bonding of employees.

Recommendations

CIS management:

4. **Ensure that personal business activities are not conducted during the Agency's hours of operation and prohibit the employees from distributing non-company literature in work areas.**
5. **Ensure that all insurance policies carry a 30 day advance written notice of termination.**
6. **Ensure that the hours of operation are maintained as specified in the County contract.**
7. **Establish monitoring policies and procedures and conduct monitoring reviews to ensure that the subcontractors are in compliance with contract requirements.**
8. **Ensure that the monitoring of the subcontractors is performed by an organization without any conflict of interest.**
9. **Perform a fair market analysis on the facility it currently leases.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether CIS's fixed assets and equipment purchases made with WIA funds are used for the WIA programs and are safeguarded.

We did not perform test work in this section as CIS did not use WIA funds to purchase fixed assets or equipment.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll is appropriately charged to the WIA program. In addition, determine whether personnel files are maintained as required.

Verification

We traced and agreed payroll expenditures for three employees in January 2006 to the payroll records and time reports, totaling \$3,127 (100%). We also interviewed one employee and reviewed the personnel files for five employees assigned to the WIA program.

Results

CIS appropriately charged payroll expenses to the WIA programs. However, CIS did not perform a criminal record clearance for two (40%) of the five employees or conduct performance evaluations for all five employees. In addition, CIS did not maintain required documentation in the employees' personnel files. Specifically, CIS did not maintain:

- Copies of the employees' valid driver's licenses or proof of car insurance in all five personnel files.
- Copies of job description or specifications in four (80%) of the five employees' personnel files.
- Copies of the employees' resume or application in one (20%) of the five employees' personnel files.

Subsequent to our review, CIS provided criminal record clearance for two employees, copies of job description for the four employees and copy of a valid driver's license for one employee.

Recommendations

CIS management:

- 10. Conduct performance evaluations on an annual basis.**
- 11. Ensure that the required documents are maintained in the personnel files.**

COST ALLOCATION PLAN

Objective

Determine whether CIS's Cost Allocation Plan was prepared in compliance with the County contract and applied to program costs.

Verification

We reviewed CIS's Cost Allocation Plan and a sample of expenditures incurred by the Agency during February 2006 to ensure that the expenditures were properly allocated to the Agency's appropriate programs.

Results

CIS's Cost Allocation Plan was prepared in compliance with the County contract and costs were appropriately allocated.

Recommendation

There are no recommendations for this section.

CLOSE-OUT REVIEW

Objective

Determine whether the Agency's FY 2004-05 final close-out invoice was reconciled to the agency's financial accounting records.

Verification

We traced and agreed the Agency's final close-out invoice for FY 2004-05 to the prior year's General Ledger. In addition, we reviewed prior year's General Ledger for any duplicate postings or any unallowable costs.

Results

CIS's General Ledger supported the Agency's final close-out invoice for FY 2004-05. However, CIS needs to repay DCSS \$9,328. Specifically:

- CIS inappropriately billed DCSS \$1,572 in transportation costs related to trips to Sea World and Magic Mountain for FY 2004-05 also. As mentioned earlier, the costs of entertainment and any costs directly associated with such costs are unallowable under federal regulations.

- CIS billed DCSS \$6,720 for on-the-job training (OJT) for WIA youth participants in FY 2004-05. OJT is not an allowable program for WIA youth participants under the WIA guidelines.
- CIS inappropriately billed DCSS \$1,036 for wages paid to three (43%) of the seven eligible participants noted above to attend classes.

Recommendations**CIS management:**

12. Repay DCSS \$9,328.

13. Ensure that OJT training is not provided to younger youth participants.

PRIOR YEAR FOLLOW-UP**Objective**

Determine the status of the recommendations reported in the prior monitoring review completed by a CPA firm contracted by the County.

Verification

We verified whether the outstanding recommendations from FY 2004-05 monitoring review were implemented. The report was issued on February 27, 2006.

Results

The prior year's monitoring report contained six recommendations. CIS implemented four of the six recommendations. The remaining recommendations required the Agency to research into the incidents of misallocations and incorrect charges, determine the reason for each occurrence, and repay DCSS if it was determined that the misallocations and/or incorrect charges were incorrectly billed.

Recommendation

14. CIS management implement the outstanding recommendations from FY 2004-05 monitoring report.



COMMUNITIES IN SCHOOLS OF SOUTH BAY, INC.
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March 14, 2007

County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
1000 S. Fremont Avenue, Suite #51
Alhambra, CA 91803

Attention: Yoon Bae/Iscah Wang

SUBJECT: RESPONSE – COMMUNITIES IN SCHOOL OF SOUTH BAY, INC –
CONTRACT WORKFORCE INVESTMENT ACT PROGRAMS

ELIGIBILITY

FINDING:

CIS did not maintain appropriate documentation for three (30%) of the ten participants to support the participants eligibility to receive program services. Specifically, CIS did not obtain proof of income, meet the barrier category for employment or the participants were not residents of the contract service area. The amount billed to the Department of Community and Senior Services (DCSS) for incentives, supportive services and wages paid to three ineligible individuals totaled \$1,855. There may be other direct and indirect costs associated with providing services to the three ineligible individuals that we were unable to determine, such as staff time, training courses, and transportation.

RESPONSE/CORRECTIVE ACTION:

We disagree with this finding. Each of the participants in question is eligible for the program. CIS did obtain the proper documentation to ensure that the participants are eligible; however, when we changed locations from one place to another, a lot of the paperwork was misplaced and mis-filed. We are in the process of reestablishing control of our files/paperwork and getting everything back into place. These files have been located and are available for review.

BILLED SERVICES/CLIENT VERIFICATION

Finding # 1:

The six participants/guardians interviewed stated that the services the participants received met their expectations. As indicated above, three (30%) of the ten participants were ineligible for the

WIA program. Of the seven eligible participants, CIS inappropriately billed DCSS educational hours as participant wages for all seven (100%) eligible participants, totaling \$ 2,855 in FY 2005-06. CIS also did not maintain appropriate documentation, such as timecards, signed incentives policies and receipts, in the participants case files to support the subsidized employment, incentives, or supportive services provided to three (50%) of the seven eligible participants, totaling \$415. The amount billed to DCSS for unsupported and unallowable expenditures, as such, CIS needs to repay DCSS \$3,270.

RESPONSE/CORRECTIVE ACTION:

We disagree with this finding. The three students as mentioned in the response above, the participant file was misplaced due to our re-location; this documentation was in the participant file, the file was not available at the time of the Auditor's visit. It has since been located and is available for review. In the future we will ensure that all files with all documentation are available at the time of the audit/review.

As it relates to the education hours billed. **We disagree with the statement that these are unallowable costs.** According to the contract, students must take a reading and math test. Students that test two levels below their current grade level are REQUIRED to take academic enrichment/remediation training. CIS has always provided this training and the County has always allowed this to be an allowable cost.

Finding #2:

CIS also did not accurately or completely report the participant's program activities, such as supportive services, completion of leadership training, exiting of participants, and subsidized employment, on the Job Training Automation (JTA) system for all ten (100%) participants sampled. The JTA system is used by the State of California Employment Development Department of Labor to track WIA participant activities.

RESPONSE/CORRECTIVE ACTION:

We agree with this finding. Due to high staff turnover as well as relocation changes, the JTA system was not updated in a timely manner. This was an oversight, these students' are/where WIA students; however, they had not been entered into the JTA system. This has since been corrected. The students meet all of the requirements of the program and participated in all of the program activities. We will implement recommendation #8 on page 3 of the audit report. Ensure that staff accurately updates the JTA system to reflect the participants program activities.

CASH/REVENUE

Finding:

CIS does not always resolve reconciling items within a timely manner as required by the County contract. Specifically, there were four unresolved outstanding checks, totaling \$1,388, on the March 2006 bank reconciliation that were older than 210 days. The Agency's accounting policy also requires that outstanding checks over 90 days be rectified by either a stop payment or a letter of inquire to the payee.

RESPONSE/CORRECTIVE ACTION:

We agree with this finding. This was an oversight by our accounting department. We will implement recommendation #9 on page 3. CIS management will ensure that reconciling items are resolved timely and unclaimed checks cancelled in a timely manner. We will require accountant to provide a list of outstanding checks to Executive Director on a monthly basis so this can be monitored in the future.

EXPENDITURES/PROCUREMENT

Finding: CIS needs to repay DCSS \$29,808 for unallowable and unsupportive expenditures.

#1: CIS did not obtain a lease agreement for the facility it currently leases. The County contract requires bona fide contracts or lease agreements to support operating expenses. CIS paid \$18,494 in facilities lease costs for July 2005 through April 2006.

RESPONSE/CORRECTIVE ACTION:

We disagree with this finding. CIS did provide copies of the lease agreements to the auditors shortly after their visit for review via fax, however, because the ownership has changed hand 4-5 times during our stay, I do not believe that the auditors were able to sift thru the 75 pages of lease documents and amendments to find the information that they needed to satisfy the issue. The owners of the property have changed SEVERAL times since we began our leases over 10 years ago and there are various amendments. CIS has these documentations on hand and will be happy to review them further w/the auditor's office.

#2: CIS did not obtain a signed agreement from two subcontractors. The County contract requires a signed contract, among other supporting documentation, to support the expenditures of consultant services. CIS paid the two subcontractors a total of \$2,500.

RESPONSE/CORRECTIVE ACTION:

We disagree with this finding. CIS does have the subcontracts that are mentioned above; these were also mistakenly sent to storage but are available for review. In the future we will ensure that all documentation related to the program remain on site.

#3: CIS inappropriately billed DCSS \$4,012 for incentives provided to 32 participants according to a participant we interviewed, each participant was given \$125 for a Magic Mountain trip. Specifically, the participant was required to purchase their own Magic Mountain ticket and in return, CIS gave them \$125. CIS also billed DCSS \$2,300 for the Magic Mountain transportation costs. According to federal regulations, costs of entertainment and any costs directly associated with such costs are unallowable.

RESPONSE/CORRECTIVE ACTION:

We disagree with this finding. Each of these participants participated in a two week Goal Setting/Career Development workshop. In return for active participation and completion of this workshop, participants received a monetary incentive. CIS planned a Magic Mountain field trip

for WIA/Calworks and other participants of the CIS program. Participants were given the option to use their monetary incentive to purchase their Magic Mountain ticket. It was not required.

#4: CIS inappropriately billed DCSS \$1,502 for three non-WIA participant's wages during the months of August and September 2005 and April 2006.

RESPONSE/CORRECTIVE ACTION:

We disagree with this finding. This was an oversight, these students' are/where WIA students; however, they had not been entered into the JTA system. This has since been corrected. The students meet all of the requirements of the program and participated in all of the program activities.

#5: CIS inappropriately billed DCSS \$1,036 for unsupported consultant charges and mileage expenses. Specifically, CIS did not have an invoice to support the \$1,000 in consultant charges incurred in November 2005 and the September 2005 mileage claims did not include the addresses of origins of destinations, odometer readings or the purpose of the trips to support the mileage expenses.

Subsequent to our review, CIS provided lease agreement for the lease facility and mileage claim to support \$36 of mileage expenses. However, CIS did not provide proper documentation to support rent allocation.

RESPONSE/CORRECTIVE ACTION:

We agree with this finding. We will implement recommendation # 13 and #14 on page 5 of the audit report. We will ensure that only actual program –related expenditures are billed to DCSS. Ensure that adequate documentation is maintained to support expenditures.

INTERNAL CONTROLS/CONTRACT COMPLIANCE

Finding: Generally, CIS maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

#1: CIS allowed two employees to conduct personal business activities during the Agency's hours of operation. Specifically, the two employees distributed business flyers to participants and received calls and faxes at the CIS facility. The County Contract prohibits contractors employees from participating in matters affecting an employees own financial interests or the financial interest of other specified person or organization. CIS personnel policy also prohibits employees from distributing non-company literature in work areas at any time during work hours.

RESPONSE/CORRECTIVE ACTION:

We disagree with this finding. CIS, during several months last year, operated on an extremely low budget which forced us to lay off several employees and drastically reduce the hours for the

remaining employees. Although we allowed two employees to use their office's for self-training, school, or other activities during their "off the clock hours", this had no affect of WIA or any other CIS program. Neither WIA, nor any other funding source was charged or affected by this action. We will implement recommendation # 4 on page 6 of the audit report. Ensure that personal business activities are not conducted during the Agency's hours of operation and prohibit the employees from distributing non-company literature in work areas.

#2: CIS did not carry adequate crime coverage insurance. Specifically, the Agency's crime coverage insurance policy did not cover for "theft, disappearance and destruction" or "burglary and robbery" as required. In addition, the Agency's workers compensation insurance policy has a 10 day advance written cancellation notice period. However, the County contract requires a 30 day advance written notice of termination of any program of insurance.

Subsequent to our review, CIS provided proof of crime coverage, policies on travel and bonding of employees.

RESPONSE/CORRECTIVE ACTION:

We will implement recommendation #5 on page 6 of the audit report. Ensure that all insurance policies carry a 30 day advance written notice of termination.

#3: CIS's hours of operation are from 9:00 am through 5:00 pm., Monday through Thursday and closed on Fridays and Saturdays. However the County contract requires that CIS maintain its hours of operation from 9:00 am through 6:00 pm Monday through Friday and every other Saturdays, from 9:00 am to 1:00 pm.

RESPONSE/CORRECTIVE ACTION:

We agree with this finding. Due to budget constraints hours have been revised. We will send a memo to the County notifying them of this temporary change. We will implement recommendation # 6 on page 6 of the audit report. CIS will ensure that the hours of operation are maintained as specified in the County contract.

#4: CIS did not have policies and procedures in place for monitoring its subcontractors. Although CIS hired a contractor to monitor their subcontractors, CIS did not have any written reports from the contractor documenting their finding, recommendations or the subcontractor's corrective action plans. In addition, the same contractor that was hired to monitor the subcontractors is also one of CIS's subcontractors, contracted to provide WIA program services.

RESPONSE/CORRECTIVE ACTION:

We agree with this finding. Reports were not available during the visit. We will implement recommendation # 7 on page 6 of audit report and #8 on page 7 of the audit report. Establish monitoring policies and procedures and conduct monitoring reviews to ensure that the subcontractors are in compliance with contract requirements. Ensure that the monitoring of the subcontractors is performed by an organization without any conflict of interest.

#5: CIS accounting policies and procedures manual was incomplete. Specifically, the Agency's accounting manual did not include policies and procedures regarding travel and bonding of employees.

Subsequent to our review, CIS provided proof of crime coverage, policies on travel and bonding of employees.

#6: CIS did not perform a fair market analysis for the facility if currently leases.

RESPONSE/CORRECTIVE ACTION:

We agree with these findings. We have been at this site for over 12 years. The first 2-3 years were "granted" to CIS at no costs- so it was a perfect situation. After the time passed, we remained in the site. We will ensure that all insurance documentation, policies, etc are in a fire-proof file cabinet and available upon request in the future. Now that we are settled into the office, this will not be a problem.

PAYROLL AND PERSONNEL

Finding: CIS appropriately charged payroll expenses to the WIA programs. However, CIS did not perform a criminal record clearance for two (40%) of the five employees, or conduct performance evaluations for all five (100%) employees. In addition, CIS did not maintain required documentation in the personnel files. Specifically, CIS did not maintain copies of the employees valid drivers license or proof of car insurance in all five (100%) personnel files, copies of job description or specifications in four (80%) of the five employees personnel files, copies of the employees resume or application in one (20%) of the five employees' personnel files.

Subsequent to our review, CIS provided criminal record clearance for two employees, copies of job description for four employees and copy of valid driver's license for one employee.

RESPONSE/CORRECTIVE ACTION:

We agree with these findings. CIS had not done performance evaluations for the year ending 2006. CIS has a lot of staff turnover and because of all of the difficulty and issues that we had because of our recent move, this was overlooked. Many of the staff members were laid off due to lack of funds as well. We will implement recommendation #10 and # 11 on page 8 of the audit report. Conduct Performance evaluations on an annual basis. Ensure that the required documentations are maintained in the personnel files.

In the future, we will complete performance evaluation in a timely manner.

CLOSE -OUT REVIEW

Finding: CIS's general ledger supported the Agency's final close-out invoice for FY 2004-05. However, CIS needs to repay DCSS \$ 9,328. Specifically:

#1: CIS inappropriately billed DCSS \$1,572 in transportation costs related to trips to Sea World and Magic Mountain. As mentioned earlier, the costs of entertainment and any costs directly associated with such costs are unallowable under federal regulations.

RESPONSE/CORRECTIVE ACTION:

We agree with this finding. CIS understands that the funds used for transportation (to pay for the bus) is not allowable according to the regulations and agree to refund these funds. If the methodology that we used to provide the incentives to the youth is still considered unallowable, CIS will refund these funds.

#2: CIS inappropriately billed DCSS \$6,720 for unsupported on-the-job training (OJT) to younger youth participants in FY 2004-05, which is also not an allowable program service for younger youth participants under the WIA guidelines.

RESPONSE/CORRECTIVE ACTION:

We agree with this finding. CIS will reimburse DCSS. CIS will ensure that program managers are careful to ensure that only youth that meet the age requirement are allowed to participate on OJT assignment, per the contract requirements. All OJT assignments will be reviewed by the Director of Education, prior to being assigned.

#3: CIS inappropriately billed DCSS educational hours as participants wages for three (43%) of the seven eligible participants noted above, totaling \$ 1,036 in FY 2004-05.

RESPONSE/CORRECTIVE ACTION:

We disagree with the statement that these are unallowable costs. According to the contract, students must take a reading and math test. Students that test two levels below their current grade level are REQUIRED to take academic enrichment/remediation training. CIS has always provided this training and the County has always allowed this to be an allowable cost

If you have any questions, please do not hesitate to contact me at: 562-639-5095

Sincerely,



Artrich Woods,
Director of Educational Services

cc. Shirley Allen, Executive Director
Victoria M. Adams, Associate Director